

EXECUTIVE SUMMARY

1. PURPOSE

The purpose of this report is to table the final budget for 2013/2014 to the Council to approve.

2. BACKGROUND

Budget must be compiled according to the prescriptions of the MFMA Act 56 of 2003. We are always trying to comply with the act and this year is no exception

Compliance with the MFMA and this circular is critical to ensure the acceptance of our budget by National Treasury. One big exception is that we must include the different departments SDBIP's with the budget approval. Previously it had to be done 28 days after the approval of the budget. We must also show the previous two year's budget as well as for the next two years. To comply with this we brought in four extra columns into the budget for the 2011/2012, 2012/2013, 2013/2014 and 2014/2015 budgets. It makes the budget document very bulky but it is very useful and can be used for comparisons over the last couple of years and to see the projections for the next two years.

3. Summary of Income Budget for 2013/2014

TABLE OF INCOME

DESCRIPTION	BUDGET 2012/2013	BUDGET 2013/2014	DIFFERENCE
Property Rates	13 621 196	16 535 387	2 914 191
Electricity revenue	44 338 107	50 583 415	6 245 308
Water revenue	9 747 161	14 959 002	5 211 841
Sanitation revenue	8 779 969	10 014 112	1 234 143
Removal revenue	6 339 846	7 282 278	942 432
Transfers recognized - operational	94 858 000	92 086 000	-2 772 000
Other Revenue	18 168 000	16 647 294	-520 706
Total	195 852 279	208 107 488	12 255 209

Break down of service charges

<u>Description</u>	<u>Actual Levies</u>	<u>Percentage</u>	<u>Total</u>
<u>Property Rates</u>	R 18 614 051.08	6%	R 19 802 182
<u>Minus Rebates</u>			R 3 266 795
<u>Total</u>			R 16 535 387
<u>Electricity Revenue</u>	R 47 042 575.95	7%	R 50 583 415
<u>Water Revenue</u>	R 8 063 101.80	10%	R 8 959 002
<u>Extra income due to 6kl rebate</u>			R 6 000 000
<u>Total</u>			R 14 959 002
<u>Sanitation Revenue</u>	R 9 413 265.28	6%	R 10 014 112
<u>Refuse Removal Revenue</u>	R 6 845 341.32	6%	R 7 282 278
<u>Total</u>	R 89 978 335.43		R 99 374 194

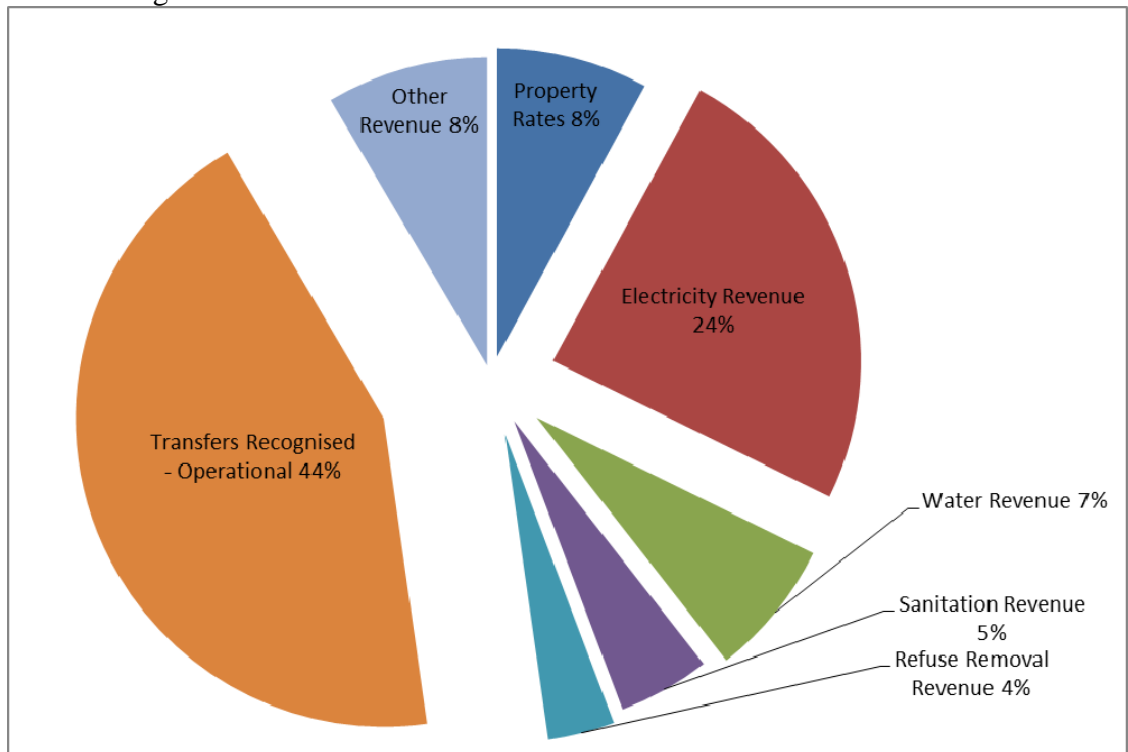
Transfer recognized is made up out of the following grants.

Equitable Share	R 85 634 000
Finance Management Grant	R 1 550 000
Municipal Systems Improvement Grant	R 890 000
Water Services Operating Subsidy	R 3 012 000
Expanded Public Works Programme	R 1 000 000

The reason for the decrease in Equitable share is due to census from R 88 546 000 million to R 85 634 000 difference is R 2 912 000 million.

The results of the latest national census were released by Statistics South Africa in October 2012. According to the 2011 Census, the population of some municipalities grew by over 50 per cent between 2001 and 2011, while others experienced a decline in population. Some provinces recorded significantly smaller populations in the 2011 Census than had been previously estimated, including KwaZulu-Natal, Eastern Cape, Limpopo and the Free State. Gauteng has the highest population increase of close to 1 million people. Transfers to municipalities will significantly be affected by this data as the data used in the local government equitable share and municipal infrastructure grant have been updated to reflect these changes.

The following chart below illustrates the percentage per service against total income budget.



Increases in services for the 2013/2014 budget year.

Description	2011/2012	2012/2013	2013/2014
Water	10%	10%	10%
Sewerage	6%	6%	6%
Waste Management	6%	6%	6%
Rates	10%	10%	6%
Electricity	n/a	n/a	7%

All other income was increased with 6%.

As we all know that the cost of infrastructure and maintenance is increasing daily it's one of the most important factors influencing the water tariffs.

One other impact on water is that from the 1 July 2013 only indigent consumers will receive 6 kl free water. Reason for this is due to the financial position of the municipality. The impact of the free water to all the domestic consumers comes to an amount of R 6 000 000.00 per annum.

4. **SUMMARY OF EXPENDITURE BUDGET FOR 2013/2014 BUDGET YEAR.**

TABLE OF EXPENDITURE

DESCRIPTION	BUDGET 2012/2013	BUDGET 2013/2014	DIFFERENCE
Salaries and Wages	67 367 000	76 214 000	8 847 000
Councillors Allowances	3 340 000	3 540 400	200 400
Depreciation	42 000 000	42 312 000	312 000
Electricity Bulk Purchases	32 609 000	35 883 000	3 274 000
Water Bulk Purchases	15 984 000	16 943 000	959 000
Repairs and Maintenance	9 210 000	10 529 000	1 319 000
Contributions To Capital	2 500 000	2 990 000	490 000
General expenses	107 147 000	104 239 600	-2 707 000
Total	238 157 000	250 339 000	12 182 000

Break Down of Salaries and Wages

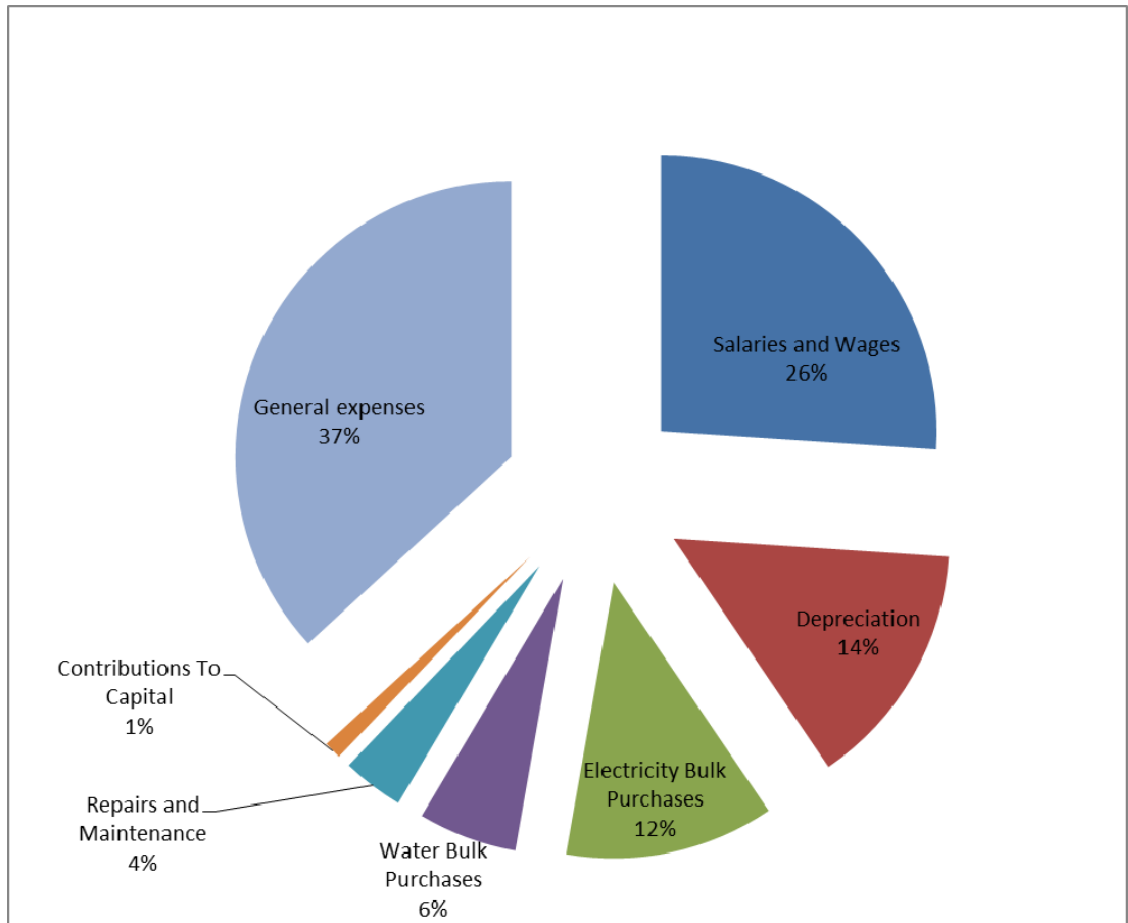
Employees

Salaries R 67 367 000 plus 6.85 Percentage R 71 981 639 the difference is R 4 232 361 which consist of the following factors new post by management also the increase in medical aid schemes as well as personnel that join pension funds.

Councillors

Salaries R 3 340 000 plus 6 Percentage equals to R 3 540 400.

The following chart below illustrates the percentage per expenditure type against total expenditure budget.



Salaries – R 76 214 000

We budgeted for 6.85% increase on salaries for personnel for 2013/2014. For Councilors we projected an increase in allowances of 6%. Currently the salary percentage is 26% of the total budget. The national norm is between 30 and 35%.

Depreciation – R 42 312 000

Due to the fact that the municipalities budget is in a deficit of R 42 312 000 is due to depreciation which is a non-cash deficit.

A Financial Performance budget surplus/deficit in itself is not an indication of a 'funded' budget, due to items such as capital grants, depreciation and provisions.

Let's assume, for example, that a municipal Financial Performance budget shows a deficit. This deficit would not exist if budgeted depreciation was not included. Trying to apply the past mindset of a "balanced budget" to the Financial Performance budget may result in a view that consumer charges will need to be increased to cover the depreciation. This may not be the case, since a deficit on the Financial Performance budget does not necessarily mean that the budget is not funded. Therefore, further analysis will be required by the municipality to obtain the correct picture.

Bulk Purchases – R 52 826 000

Bulk purchases are break down in to two different types Water and Electricity. Electricity bulk purchase percentage to total budget is 12%. Water bulk purchase percentage to total budget is 6%.

REPAIRS & MAINTENANCE – R 10 529 000

Repair and maintenance increased by 6% overall with few exceptions. It made up 4 % of the total budget. The national norm is in the region of 7 to 7.5%. The service departments such as water, sewerage, roads and waste management were allocated the highest portion of the budget. This is to maintain the services on our planned bigger spending under general expenditure.

Over the last two years maintenance on vehicles increased dramatically. This was due to the long overdue life expectancies of all vehicles with exception of vehicles not older than three years. In the past not enough was spend in replacing vehicles such as tractors and LDV's. Over the last two to three years replacing of vehicles reduced maintenance costs. The older vehicles are still high maintenance and cost the council a lot of money.

Maintenance on buildings is also steadily rising. Building includes halls, offices, stores at unit level and Council owned houses. More and more money is been spend on this due to low spending over the last 5 to 10 years. Our budget made provision for a higher spending on buildings thus better maintenance.

As mentioned already bigger spending on streets and roads will automatically increase the maintenance as well. Here our budget made provision for higher maintenance especially on roads and streets that were either upgraded or resealed in the previous year and higher maintenance for those that we plan to do in the next financial year.

Maintenance on equipment and computer equipment is very important due to the fact that service delivery depend on equipment to be in a good working condition. We also made provision for the upgrading of equipment and computer equipment.

We do have a 20% per annum replacement plan on computers but the equipment not due for replacement must be maintained.

Over the last two years we experienced rather big problems with our sewerage and water networks in most of our towns, therefore we increased our budget for this votes quite substantial to meet the demands in the next financial year. If the networks is not working to full capacity service delivery will not be to the acquired standard Kopanong is striving to achieve.

GENERAL EXPENDITURE – R 107 780 000

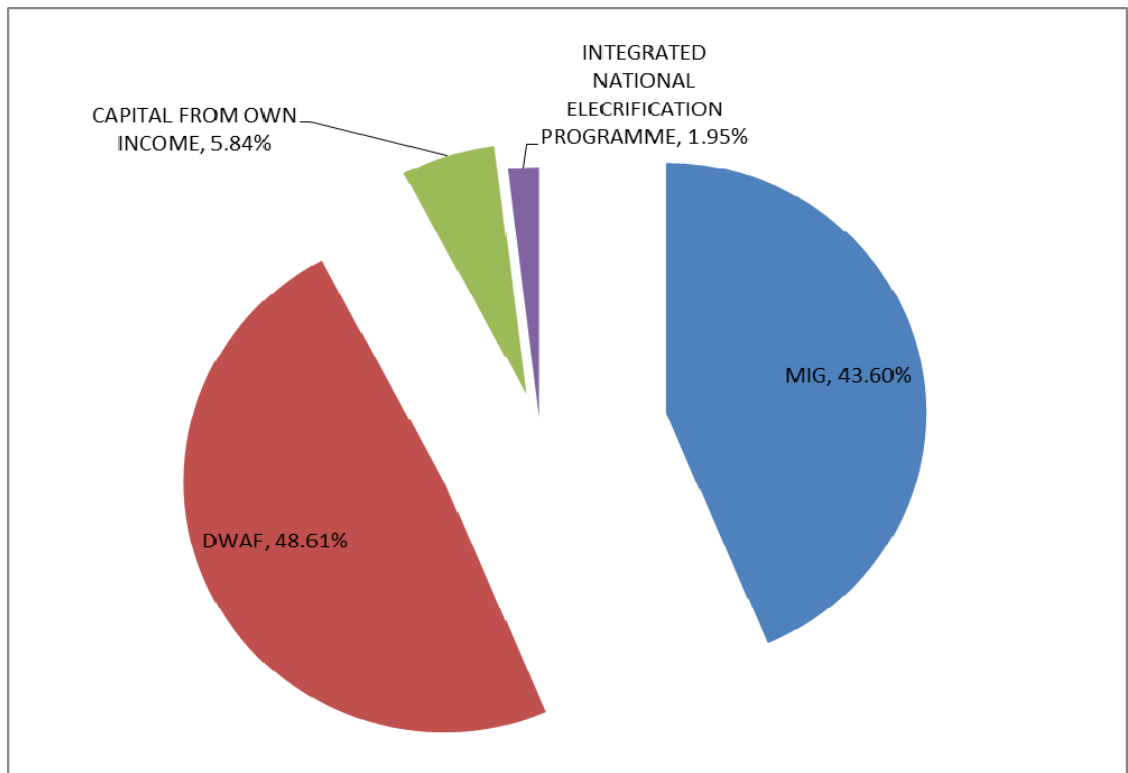
Overall most of the line items were increased by 6%. In certain instances we budgeted on a zero base and some new line items where introduced. Currently general expenditure is 37% of the total budget. This is very high due to the following factors:

To give substance to the vision of council for Kopanong in the IDP more will be spend on good governance in form of drafting of policies, implementation of policies, implementation of strategies, better public participation strategies, implementing of a Local Aids Council and Strategy, drafting of a Housing sector plan and training of staff.

More funds will be made available to increase the quality and type of service delivery to communities. More attention will be given to roads, cemeteries, water distribution, waste management and waste water in all towns of Kopanong Local Municipality area in 2013/2014.

5. CAPITAL BUDGET – R 51 221 000

DESCRIPTIONS	BUDGET 2012/2013	BUDGET 2013/2014	DIFFERENCE
CAPITAL FROM OWN INCOME	R 2 500 000	R 2 990 000	R 490 000
REGIONAL BULK INFRASTRUCTURE	R 4 000 000	R 24 900 000	R 20 900 000
MUNICIPAL INFRASTRUCTURE GRANT	R 23 521 000	R 22 331 000	R -1 190 000
INTEGRSTED NATIONAL ELECTRIFICATION PROGRAMME		R 1 050 000	R 1 050 000
TOTAL	R 30 021 000	R 51 221 000	R 21 250 000



In total 94 % of our capital budget is funded from external sources. All of these funds were already allocated to certain projects such as the Water projects of Jagersfontein and Fauresmith amounted to R 24 900 000. And R 22 331 000 for MIG projects. And integrated national electrification program of R 1 000 000.00.

Due to the higher spending on maintenance and general expenditure we could only contribute 6% - R 2 990 000 to the capital budget. This includes a planned three year strategy to provide ablution facilities and fencing of halls and municipal buildings to all towns of Kopanong and also Furniture and Computers and Equipment. Also fencing at landfill site will begin in the 2013/2014 budget year.

6. PROBLEM STATEMENT

The new changes and regulations what we must adhere to also poses a problem. It is a new territory and we struggled to present all new regulations as understandable as possible to council. Certain things can't be simplified and must be taken as they're prescribed. Hopefully we succeeded in our request to simplify the budget and council would be able to give their inputs as they understand it.

The uncertainty of what fuel prices will have on suppliers and us is also a problem. To budget for something you are not certain about is always difficult and one hopes that our projections will be accurate and fair. One thing is certain and that is the cost of consumables, vehicles and basically every thing will rise and the consumers of services do not always see it that way. Services will be more expensive and to keep it affordable for every one is and will be a challenge to municipalities al over. But with good planning and management it is possible to keep cost as low as possible in future.

OVERVIEW OF ANNUAL BUDGET PROCESS

First draft budget will be tabled before the 31st March 2013 as prescribed by the MFMA.

Community meetings were held from the 22 April to the 27th May 2013 in all nine towns.

OVERVIEW OF BUDGET RELATED POLICIES

Credit Control policy

New policy councillors and community will be workshop.

Tariff policy

Only indigent consumers will receive free 6kl of water from the first of July 2013/2014 due to the fact that the municipality financial position doesn't allow giving free water to all domestic consumers. See tariff list below.

KOPANONG LOCAL MUNICIPALITY GENERAL TARIFFS 2013/14 (Note: All tariffs exclude VAT)				
		2012/2013	2013/2014	Difference
1	Services			
	Water			
	1. Indigent			
	CATEGORY 0 - 6KL Free	-	-	-
	CATEGORY 7 - 20KL	8.47	9.32	0.8470
	CATEGORY 21 - 30KL	8.70	9.57	0.8700
	CATEGORY >30KL	8.95	9.85	0.8954

1.1 Water			
1. DOMESTIC			
CATEGORY 0 - 6KL	8.07	8.88	0.8071
CATEGORY 7 - 20KL	8.47	9.32	0.8470
CATEGORY 21 - 30KL	8.70	9.57	0.8700
CATEGORY >30KL	8.95	9.85	0.8954
2. ALL OTHER CATEGORIES			
CATEGORY 0 - 6KL	8.37	9.21	0.8373
CATEGORY 7 - 20KL	8.70	9.57	0.8700
CATEGORY 21 - 30KL	8.95	9.85	0.8954
CATEGORY >30KL	9.23	10.16	0.9232
Water connection:			
15 mm unmetered connection	1,380.19	1,518.20	138.02
15 mm	1,097.07	1,206.78	109.71
20 mm	1,353.63	1,489.00	135.36
25 mm	2,061.42	2,267.57	206.14
32 mm	2,565.72	2,822.29	256.57
40 mm	3,892.58	4,281.84	389.26
Water re-connection fee to re-instate supply cut due to arrears			-
Cut of water supply due to demolishing of building	106.17	116.79	10.62

Tariff increase for the next financial year 2013/2014.

Description	2011/2012	2012/2013	2013/2014
Water	10%	10%	10%
Sewerage	6%	6%	6%
Waste Management	6%	6%	6%
Rates	10%	10%	6%

Indigent policy

No changes were made.

Supply chain policy

New policy councillors and community was workshop.

Rates policy

No changes were made.

Debt write off policy

New policy councillors and community was workshop.

Travel and Subsistence Policy

No changes were made.

Banking and Investment Policy

No changes were made.

Budget Policy

No changes were made.

OVERVIEW OF BUDGET ASSUMPTIONS

The following assumptions were used when the budget was compiled:

Salary increments:	6.85%
Councillor's Allowances:	6%
General Expenses at inflation rate:	6%
Bulk purchase of water: (due to capital commitments)	10%

OVERVIEW OF BUDGET FUNDING

DESCRIPTION	BUDGET 2012/2013	BUDGET 2013/2014	DIFFERENCE
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ALLOCATIONS ON GRANTS

<u>TYPE OF GRANT</u>		<u>AMOUNT ALLOCATED TO KOPANONG</u>
<u>MSIG</u>		R 890 000.00
<u>FMG</u>		R 1 550 000.00
<u>WATER SERVICE OPERATING SUBSIDY</u>		R 3 012 000.00
<u>EQUITABLE SHARE</u>		R 85 634 000.00
<u>MIG</u>		R 22 331 000.00
<u>DWAF</u>		R 24 900 000.00
<u>INTEGRATED NATIONAL ELECTRIFICATION PROGRAMME</u>		R 1 050 000.00
<u>EXPANDED PUBLIC WORKS PROGRAMME</u>		R 1000 000.00

MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Go to supporting table SA 26.

CAPITAL EXPENDITURE DETAILS

Go to supporting table A5.

Budget and IDP alignment

Go to Supporting tables SA 4 – SA 6